First Sentier Wholesale Global Credit Income Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Global Credit Income Fund

Quarterly Factsheet

30 June 2022

For Adviser use only

Portfolio Description

The fund invests in a diversified portfolio of higher yielding Australian and international fixed interest investments.

Investment Strategy

The fund invests in a portfolio of predominantly global credit securities. The fund's strategy is to earn an income return from its investments, controlling risk through careful selection and monitoring, combined with broad diversification. The increased credit risk of credit securities means that these investments have the potential to deliver higher returns over the medium term compared to cash. Derivatives may be used for risk management or return enhancement. The fund aims to hedge currency exposure.

Investment Objective

To provide income-based returns and to outperform the Bloomberg AusBond Bank Bill Index over rolling three-year periods before fees and taxes by investing in a diversified portfolio of relatively higher yielding Australian and international fixed interest investments.

Key Investment Personnel and Experience (Industry / Firm)

Tony Togher	Head of Fixed Income, Short Term Investments & Global Credit	(1983 / 1988)
Craig Morabito	Senior Portfolio Manager	(2003 / 2005)

Product Overview

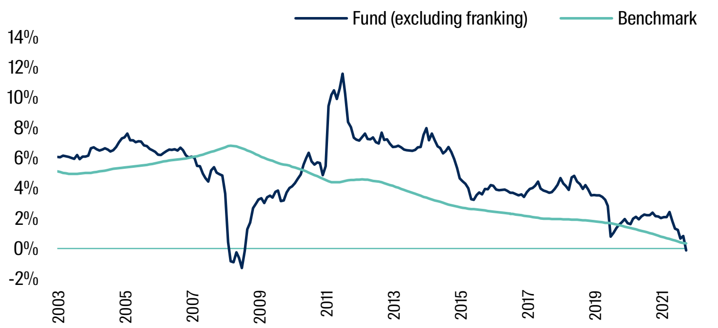
APIR code	FSF0084AU
Inception date	15 September 2000
Fund Size (A$)	776 million
Benchmark	Bloomberg AusBond Bank Bill Index
Buy / Sell spread	0.15% / 0.15%
Minimum investment (A$)	5,000
Management cost (p.a.)*	0.62%

* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

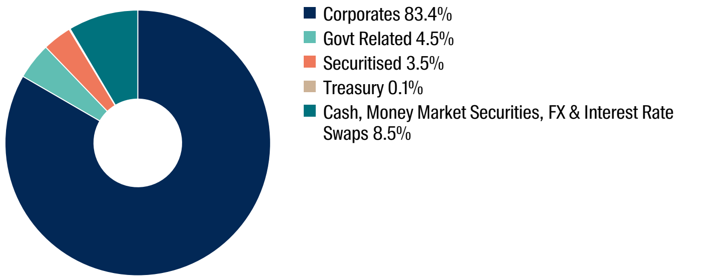
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-3.1	-4.5	-0.1	1.1	1.9	3.2	4.5
Benchmark return	0.1	0.1	0.3	0.9	1.3	1.7	3.7
Excess net return	-3.2	-4.6	-0.5	0.1	0.7	1.5	0.8
Income return	1.2	1.3	1.7	2.2	4.1	4.4	5.2
Growth return	-4.4	-5.8	-1.8	-1.2	-2.2	-1.2	-0.8

Rolling 3 year return (%)



Sector breakdown

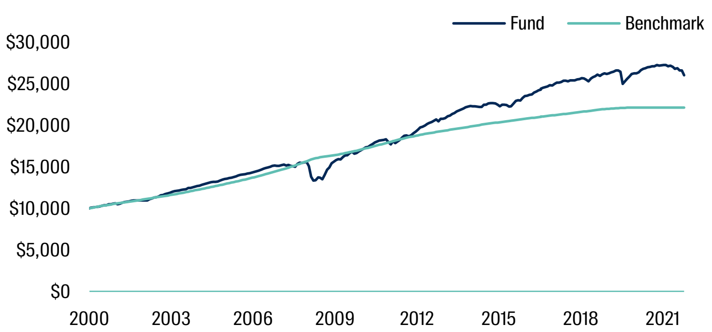


Risk Characteristics

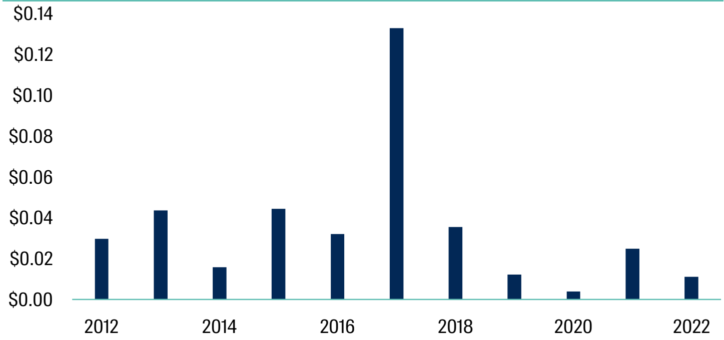
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	2.3	3.9	3.2	3.0	2.8	3.6
Benchmark standard deviation (%)	0.1	0.1	0.2	0.2	0.3	0.6
Tracking error (%)	2.3	4.0	3.3	3.0	2.7	3.7
Fund Sharpe ratio	-2.0	-0.1	0.0	0.2	0.5	0.2
Information ratio	-2.0	-0.1	0.0	0.2	0.6	0.2

Fund active sector positions (%)

Growth of AUD 10,000 Investment Since Inception



Distributions



Performance returns are calculated net of management fees and transaction costs. Performance returns for periods greater than one year are annualised. Past performance is not a reliable indicator of future performance.
Data source: First Sentier Investors 2022
Data as at: 30 June 2022

Fund Performance

Widening credit spreads were a headwind for performance and resulted in the Fund declining in value by 3.1% after fees. This compared to a return of 0.1% from the bank bill benchmark.

Effective portfolio management helped limit losses and preserve capital. Whilst returns were behind the bank bill benchmark, the Fund comfortably outperformed traditional credit indices. This was partly thanks to a bought protection position in European credit, which cushioned the impact of widening spreads in the region. Higher-than-usual cash levels were also maintained, which can be deployed in the market in due course.

Market Review

Like in the sovereign bond space, central bank policy was front-and-centre of attention for credit investors. Higher interest rates will increase the cost of debt for companies when they refinance existing bonds or look to raise fresh capital. Other things being equal, a higher debt burden will increase default risk. Most forecasts suggest default rates will increase from current levels, although current indicators suggest they will remain below long-term averages. Nonetheless, the prospect of a slowdown in economic growth rates as interest rates are lifted eroded sentiment towards credit securities and spreads widened as investors reined in their risk appetite.

A deterioration in consumer sentiment does not augur well for profitability among companies whose revenues are reliant on discretionary spending. Selected companies are also seeing margin compression owing to rising costs, not all of which can necessarily be passed on to customers through higher prices. Energy costs remain close to all-time highs, for example, which is adversely affecting the earnings outlook for energy-intensive firms. We are also continuing to see supply chain bottlenecks in some areas. Encouragingly Covid-related lockdowns in China started to be relaxed in June, but there are still delays with shipments of some goods that is affecting the availability of parts and componentry for manufacturers worldwide.

Fund Activity

The Fund remained very well diversified, with exposure to nearly 450 issuers at quarter end. Maintaining a high level of diversification mitigates risk, helping to ensure that unexpected defaults do not have an out-sized influence on returns. As well as having investments in a high number of issuers, the portfolio is well diversified geographically and by industry sector. That said, the portfolio has no direct exposure to areas of the credit market where we believe default risk is highest, e.g. in the Chinese property sector, emerging market bonds, or in the leveraged buy-out space in the US.

The Fund remained cautiously positioned in Europe. Ukraine-related tensions remain unpredictable, energy costs are soaring, and it remains to be seen how economies will respond to interest rates being raised. Valuations are becoming increasingly appealing for long-term investors, but we will wait to see how credit markets in the region respond to the termination of the European Central Bank's bond buying program before increasing exposure meaningfully.

Market Outlook

Evolving default risk remains the primary focus for investors, both for individual companies and for the market more broadly. Interest coverage – a measure of how comfortably companies can service their debt repayment obligations – could deteriorate if not actively managed by issuers and it's plausible we could see a pickup in default rates over time. This scenario underlines the critical importance of thorough credit research and ongoing monitoring. We are fortunate to have an experienced, in-house team of specialist credit analysts – their job is to relentlessly monitor the creditworthiness of issuers to detect early signs of financial stress. The intention is always to remove deteriorating companies from portfolios before default risk starts to be reflected in valuations.

Valuations are also being affected by fund flows in the sector. Strong inflows last year were a tailwind and helped ensure new issuances were generally well supported. Currently, negative returns appear to be deterring prospective investors and prompting some existing corporate bond holders to head for the exits. We have seen quite significant outflows from credit markets recently, which requires ongoing attention and careful portfolio positioning.

Despite current outflows and the deteriorating economic outlook we continue to believe credit remains attractive for long-term investors and that an allocation to corporate bonds should form an important part of a well-diversified investment portfolio.

From a cyclical perspective, it is worth noting that owing to the recent sharp increase in risk-free rates and wider credit spreads, 'all in' yields from credit are now approaching 5%; the highest level for several years. This provides an increased risk/return payoff for credit investors and should help support the appeal of the asset class among long-term, income-oriented investors. Ultimately, as long as companies do not default, investors will receive regular coupon income as well as their bond principal back when securities mature.

www.firstsentierinvestors.com.au

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